Luxury tax – What is the end game?

In the wisdom of the National Tax Policy (NTP), “there should be a realisation that improvement in revenue generation is not about increasing taxation but can also be achieved through expansion of the overall tax/revenue base and creation of an improved structure for tax and revenue generation at all levels of government”.

The desire to create, inculcate and instil a voluntary tax compliance culture amongst Nigerians is not misplaced. However, the real fact is that tax has never been a voluntary payment. “It is not a voluntary payment or donation but an enforced/compulsory contribution, exacted pursuant to legislative authority. It is a monetary charge on a person’s or entity’s income, property or transaction collected by a defined authority at the Federal or State level”. This is as acknowledged in the National Tax Policy (NTP).

It is therefore normal that the introduction of any new type or class of tax/taxes would generate heated controversy given the potential impact on someone’s income, property or transaction. There is an expectation by the citizenry that the tax policy would naturally reflect the overall holistic economic development agenda of Government whether at State or Federal level. Accordingly, creation or introduction of new tax types or class should not be based on buzz, fashion, or vogue. It has to be clearly thought through.

Presently, the focus is how to maximise revenue through aggressive tax collection drive given the crash in crude oil price and its sustained slump since 2014; a situation that has left the country in a desperate search for alternative sources of revenue.

Without a clear-cut economic plan or direction under the new administration, it may not be clear how creating new tax types or class can be the answer or part of the answers. For instance, in 2013, the previous administration tried to introduce Luxury tax but had to suspend its implementation because of the controversy it generated.

It is a fact that several countries of the world have administered luxury tax and have been able to expand their revenue base through luxury taxes. Some of these countries are Chile, Hungary, Turkey, South Korea, Thailand, Egypt, Tunisia and Botswana. But, does this necessarily make Luxury tax a viable option in Nigeria? Has the tax policy choice with respect to direct or indirect taxation been resolved to avoid aggravating a perception that the economy is over-taxed? If not, has a balance between direct and indirect taxation been determined?

Luxury tax is a tax placed on goods considered expensive, unnecessary and non-essential. Such goods include expensive cars, private jets, yachts, jewellery, etc. Luxury tax is "an indirect tax that increases the price of a good or service and is only incurred by those who purchase or use the product". If luxury tax is targeted at the ultra-wealthy members of the population and is intended to ensure some level of balance in the living standard of the populace of the country, would it not be charging more from the rich truly adjusting the per capita living conditions of the general population beyond rhetoric?

When luxury tax surfaced in Nigeria’s “taxonomy”, it was in relation to private-jet owners. It was based on the argument that chartering aircraft operators and regular commercial airlines pay ticket sales tax and passenger service tax to the Federal Government; it was only fair for private jet owners to also pay luxury tax on their private jets. This was documented in the general aviation proposal of 2013, which did not see the light of the day. There are however indications that the Federal government may revisit this proposal and also see how to apply it to other sectors of the economy to boost non-oil revenue.

The Federal Government must be very cautious in adopting luxury tax proposal. In the US, after two years into the administration of the tax, the US Congress decided to eliminate the "luxury tax" since it did not achieve its main objective. The tax revenues generated were disappointing and unsatisfactory and it also negatively impacted the incomes of the sellers of the luxury items. The government also found out that a substantial black market formed to supply these luxury products. In Chile, even though luxury tax is still being administered and collected, investors have keenly registered their support for its removal. In Taiwan, the Government of Taiwan is currently planning to replace the luxury tax with a new tax in its proposed consolidated tax to reduce the tax burden on its citizens.

A government’s overall revenue profile would influence its ability to deliver on social, economic and political goals for the benefit of the citizens. Tax remains the primary lifeline of a government’s finance. Its collection determines how liquid the Government is and measures its cashflow. However, it is not sufficient to introduce additional taxes in order to generate additional revenues. Whether rightly or wrongly, there is a feeling amongst the citizen that they bear a higher tax burden than anticipated already by virtue of the exercise of the taxing powers of the Federation resulting in multiple taxation.7

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1. Investopedia
2. National Tax Policy

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